



CONGRESSIONAL BUDGET OFFICE PAY-AS-YOU-GO ESTIMATE

April 6, 2000

H.R. 5 **Senior Citizens' Freedom to Work Act of 2000**

As cleared by the Congress on March 28, 2000

SUMMARY

H.R. 5 would repeal the earnings test that reduces the Social Security benefits of some people between the program's normal retirement age (currently 65) and 69. Under H.R. 5, those individuals could draw their full Social Security benefits, regardless of their earnings.

CBO estimates that enacting H.R. 5 would increase direct spending by \$3.9 billion in fiscal year 2000, by \$19.4 billion over the 2000-2005 period, and by \$20.3 billion over the 2000-2010 period. Administrative costs, which are subject to future appropriation, would rise by \$35 million in 2000, but fall by \$0.7 billion over the 2001-2010 period. Both the benefit payments and administrative expenses for Social Security are off-budget. The bill would have no pay-as-you-go impact because legislation affecting the Social Security trust funds is exempt from pay-as-you-go procedures.

ESTIMATED DIRECT SPENDING EFFECTS

The estimated budgetary impact of H.R. 5 is shown in the following table. The costs of this legislation fall within budget function 650 (Social Security).

Under current law, for beneficiaries between Social Security's normal retirement age (NRA), now 65, and 69, a dollar of benefits is withheld for every three dollars of earnings above a threshold. Under the Contract With America Advancement Act, that threshold is \$17,000 in 2000; it will rise to \$25,000 in 2001 and \$30,000 in 2002, and climb with average wages thereafter. That threshold applies for the entire calendar year, regardless of the month in which the beneficiary reaches the NRA. (For example, someone who reaches age 65 in October 2000 would—under current law—be permitted to earn up to \$17,000 in 2000 without any reduction in his or her benefits.) A stricter test applies to beneficiaries between age 62 (the so-called early retirement age, or ERA) and the NRA. Recipients are exempt from the earnings test when they reach their 70th birthday.

ESTIMATED DIRECT SPENDING EFFECTS OF H.R. 5 (by fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Estimated Outlays for Benefit Payments	3.9	4.3	3.6	3.1	2.6	1.9	1.3	0.6	a	-0.4	-0.6

Memorandum:

Exempt amount of earnings under current law (by calendar year, in dollars) ^b	17,000	25,000	30,000	31,200	32,400	33,480	34,560	35,880	37,200	38,520	39,840
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NOTE: Outlays represent extra benefits that would be paid from the Old-Age and Survivors Insurance Trust Fund, which is off-budget.

a. Less than \$50 million.

b. Through 2002, these are the amounts set in the Contract With America Advancement Act (Public Law 104-121). After 2002, they are indexed to overall wage increases.

H.R. 5 would repeal the earnings test when a beneficiary reaches the NRA. In the calendar year that the worker reaches NRA, the current test would still apply, on a pro-rata basis, to months before he or she passes that milestone. (For example, the hypothetical worker reaching 65 in October 2000 could earn \$12,750 in the first nine months of the year, and unlimited amounts thereafter.) CBO estimates that repealing the earnings test for beneficiaries over the NRA, effective January 1, 2000, would lead to outlays of about \$5 billion in that calendar year for additional Social Security benefits. Only three-quarters of that cost, \$3.9 billion, would occur in fiscal year 2000 because the bill would affect payments for only nine months of that fiscal year.

CBO bases its estimate on data obtained from the Social Security Administration's (SSA's) Continuous Work History Sample. That source has consistently shown that approximately 2.4 million beneficiaries between the ages of 65 and 69 have earnings, although only a minority of them make enough to be affected by the earnings test. In calendar year 2000, CBO estimates that approximately 625,000 people would receive, on average, an extra benefit of \$8,200 under H.R. 5. Because the threshold for the earnings test is already slated to rise under current law, that number would shrink to about 400,000 people in 2002, who would collect an extra benefit averaging about \$10,000. After 2002, an estimated 350,000 to 400,000 people each year would have at least some benefits withheld under current law and therefore would be affected by the bill.

The cost of repeal would decline over time for several reasons. First, because the exempt amount of earnings is scheduled to rise steeply in 2001 and 2002, fewer people will be

subject to the test under current law. Second, the NRA will climb gradually from 65 to 66 in the next decade, further shrinking the number of people affected. Third, the costs would gradually be offset by savings in the delayed retirement credit (DRC), which boosts subsequent benefits for anyone who defers receiving payments for any months after reaching the NRA but before age 70. Under current law, the DRC will eventually climb to 8 percent of benefits for each full year deferred. CBO assumes that most people affected by repeal of the earnings test would opt to collect their Social Security benefits, thus forfeiting their eventual entitlement to the DRC. Although CBO estimates that H.R. 5 would add to government outlays in the next 10 years, actuaries at the Social Security Administration (SSA) judge that repeal would have only a negligible effect on benefits over a 75-year period, because the extra payments would be almost exactly offset by savings in the DRC.

In its estimates, CBO does not assume that repeal of the earnings test would substantially affect the labor force participation or earnings of people between the NRA and age 69. In theory, the effect could operate in either direction. Older people who now hold their earnings just below the threshold might work more. But on the other hand, people with high earnings might work less because they could enjoy the same standard of living by combining a Social Security benefit with reduced earnings. Empirical evidence suggests that, in the past, the earnings test has dampened work by people aged 65 through 69. (A recent study suggests that it might reduce their work hours by about 5 percent.) Even the modest effect implied by that research would fade under current law because—as the threshold climbs to \$30,000—it will affect fewer people's decisions.

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